



**Internal Audit Committee of  
Brevard County, Florida**

**Internal Audit Review of  
Accounts Payable**

**Prepared By:  
Internal Auditors of Brevard County  
September 22, 2010**

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September 22, 2010

The Audit Committee of  
Brevard County, Florida  
Viera, Florida 32940-6699

Pursuant to the approved 2009/2010 internal audit plan, we hereby submit our internal audit report covering Accounts Payable. The internal audit of Accounts Payable focused on the invoice handling, approval and disbursement process. Therefore, we did not review the purchasing and receipt process. We also excluded purchase card expenditures. These areas are addressed in separate audits. We will be presenting this report to the Audit Committee at the next scheduled meeting on October 15, 2010.

Our report is organized in the following sections:

<b>Executive Summary</b>	This provides a summary of the issues related to our internal audit of the Accounts Payable function.
<b>Background</b>	This provides an overview of the Accounts Payable function.
<b>Objectives and Approach</b>	The internal audit objectives and focus are expanded upon in this section as well as a review of the various phases of our approach.
<b>Issues Matrix</b>	This section gives a description of the issues and recommended action as well as Managements' responses.

We would like to thank the various departments and all those involved in assisting the Internal Auditors in connection with the review of the Accounts Payable function.

Respectfully Submitted,

***INTERNAL AUDITORS***

## **Executive Summary**

# Executive Summary

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Accounts Payable operations can be effectively segregated into the following four primary components:

- Setting up new vendors and managing existing vendors.
- Receiving vendor invoices and recording the related liability in SAP.
- Paying vendor invoices and reducing the related liability in SAP.
- Reconciling vendor statements to amounts recorded in SAP.

As outlined in the approved 2009/2010 internal audit plan, the focus of this audit was on Accounts Payable. An audit of purchase cards has already been completed.

The primary objective of this audit was to assess the design and effectiveness of internal controls in place over Accounts Payable, and to assess the Department's compliance with certain laws, rules and other County policies and procedures. During the course of our work, we discussed the control design and operating deficiencies and any compliance issues with management.

Relative risk is an evaluation of the severity of the concern and the potential impact on operations. Items rated as "High" risk are considered to be of immediate concern and could cause significant operational issues if not addressed in a timely manner. Items rated as "Moderate" risk may also cause operational issues and do not require immediate attention, but should be addressed as soon as possible. Items rated as "Low" risk could escalate into operational issues, but can be addressed through the normal course of conducting business.

There are many areas of risk to consider, including financial, operational, and compliance, to name a few. For public sector organizations, we also consider public perception risk when determining the relative risk rating.

Our observations and recommendations for improving controls and operations are described in detail in the Issues Matrix included in this report. A summary of issues identified and their relative risk rating is provided below.

Issues	Risk Rating
1. <u>Duplicate Payments</u> : We identified twelve (12) duplicate payments totaling \$33,939.50 in overpayments. Six (6) of these duplicate payments, totaling \$27,803.42, were either resolved or in the process of being resolved prior to our testing. In the majority of cases, it was the vendors that had identified the duplicate payment for the six (6) discussed above. For the remaining six (6) duplicate payments, totaling \$6,136.08, the processes of resolving the duplicate payments had not begun until we notified Accounts Payable of the duplicate payments.	High
2. <u>Signature Verification</u> : We identified four (4) checks with related invoices which lacked evidence of the signature verification process (i.e. no checkmark next to the authorized signature). We reviewed each invoice and determined that they did indeed contain authorized signatures by comparing the signatures on the invoices to the list of authorized signatures kept on file with the County Finance Department.	Moderate
3. <u>Vendor Maintenance</u> : We noted three (3) active vendors with no W-9s on file and no activity since October 2005; two (2) active vendors that provided W-9s with no physical address; and one (1) active vendor, originally used to reimburse the employee for eligible travel related expenses, for an employee terminated in September 2005.	Moderate
4. <u>Duplicate Vendors</u> : We obtained a list of all vendors (excluding the Clerk's vendors) and sorted by Employer Identification Number and Social Security Number to identify potential duplicate vendors. We identified 518 likely unintentional duplicate vendors.	Moderate

Issues	Risk Rating
<p>5. <u>Invoice Receipt</u>: Of the 60 checks sampled, one (1) had a related invoice which was not date stamped by the County agency first receiving the invoice. Thirteen (13) had related invoices that were not remitted to County Finance within the required 10 day window.</p>	<p><b>Low</b></p>

## **Background**

# Background

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## **Overview**

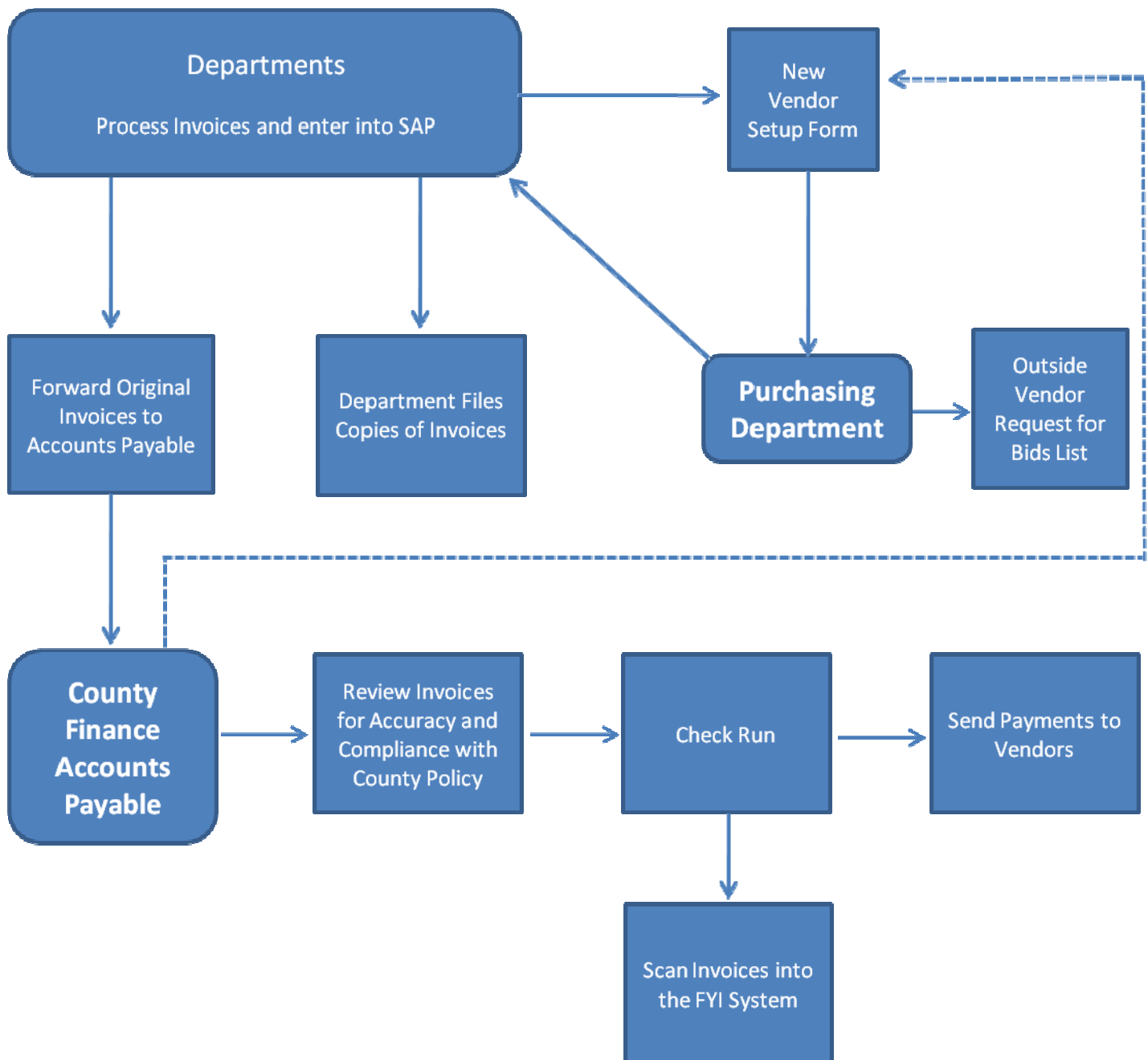
The Accounts Payable processing and payment function is the responsibility of County Finance. The function is made up of ten individuals who are responsible for processing invoices (after being reviewed for accuracy and in accordance with County procedures), running reports, matching invoices with checks, sending the checks to the vendors and scanning the original documents received by the departments into the FYI System for record retention. Accounts Payable is also responsible for reconciling vendor statements with the subsidiary ledgers. The following expenses are keyed into SAP directly by County Finance; travel advances, overnight travel reimbursement, refunds and FPL utility bills.

Portions of the Accounts Payable function are decentralized and are the responsibility of each department. The departments are linked to SAP via the County intranet and are responsible for inputting vendor invoices into SAP. Each department has a dedicated person who is responsible for making sure that purchase orders are established before items can be purchased and invoices are processed. Each department is also responsible for approving the invoices prior to submission to County Finance – the Accounts Payable Department. Copies of the invoices are maintained in the departments. Originals are forwarded to Accounts Payable.

The County is required to maintain copies of invoices and any other supporting documentation necessary to support the disbursement of funds. To help alleviate the need for storage space to maintain such documents, County Finance has been imaging records since 1989. The County uses FYI, an imaging software database, which allows them to scan documents and store them in a database for record retention. This imaging system allows the County to discard hard copies of invoices upon successfully scanning the documentation into the system.



## Summary of Process Flow



## **Objectives and Approach**

# Objectives and Approach

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## Objectives

The primary purpose of this audit was to assess the design and effectiveness of internal controls in place over Accounts Payable, and to assess the compliance with certain laws, rules and other County policies and procedures.

Objectives of the current internal audit review of Accounts Payable include the following:

<input type="checkbox"/> Determine the adequacy of the Brevard County policies and if invoices were processed and paid in accordance with the policies.
<input type="checkbox"/> Determine if invoices processed are for authorized expenditures.
<input type="checkbox"/> Determine if controls relating to reporting accounts payable are adequate and provide for appropriate reconciliations.
<input type="checkbox"/> Determine if records and documentation for accounts payable are sufficient to establish an audit trail for all transactions involving disbursements.
<input type="checkbox"/> Review controls over accounts payable including procedures and documents that assure the data used to generate disbursements are adequate.
<input type="checkbox"/> Determine that access to accounts payable is controlled.

## Approach

Our audit approach consisted of three phases:

### Understanding and Documentation of the Process (Phase 1)

During the first phase, we held an entrance conference with the Assistant Finance Director, Accounts Payable Supervisor and other personnel to discuss the scope and objectives of the audit work, obtain preliminary data, and establish working arrangements. We then conducted interviews with responsible personnel and documented their role in the processes. We also reviewed Florida Statutes, administrative orders, County policies and other resources related to accounts payable.

### Detailed Testing (Phase 2)

The purpose of this phase was performance of testing procedures based on our understanding of the accounts payable process, applicable County ordinances, and State Statutes. Our procedures included observation and inquiry, walk through and testing of individual transactions. The time period covered by testing was May 1, 2009 through April 30, 2010. We conducted the following procedures to meet our audit objectives outlined above:

- ☐ Obtain an understanding of the accounts payable process and identify critical controls.
- ☐ Test of invoice processing methods, practices, documents and procedures.
- ☐ Test of invoice approval, documentation and reporting.
- ☐ Review of forms utilized.
- ☐ Test for duplicate payment of invoices.
- ☐ Test for duplicate vendors.
- ☐ Test for address matches between vendors and employees.
- ☐ Test for vendors setup with initials as their name to identify possible fictitious vendors.
- ☐ Test for vendors with P.O. Boxes for their address to identify possible fictitious vendors.
- ☐ Verify that active vendors have a W-9 on file when required.
- ☐ Review the reconciliation of vendor statements to balances in SAP.
- ☐ Test cash disbursements.
- ☐ Test compliance with regulations and laws.

### Reporting

At the conclusion of our audit, we documented our understanding of the process surrounding accounts payable based on our interviews at the County and summarized our findings related to accounts payable. We conducted an exit conference with Management and have incorporated Management's responses into our report. We prepared our report and related findings and provided copies to appropriate County personnel.

## Issues Matrix

## ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
<b>Topic</b>	<b>Accounts Payable</b>		
<b>High</b>	<b>1 Duplicate Payments</b>		
	<p>We obtained a listing of all invoices paid between May 1, 2009 and April 30, 2010. We sorted the list of invoices and identified identical invoice numbers with identical amounts for the same vendors. We then reviewed each invoice over \$100 and identified twelve (12) duplicate payments totaling \$33,939.50 in overpayments. Six (6) of these duplicate payments, totaling \$27,803.42, were either resolved or in the process of being resolved prior to our testing. In the majority of cases, it was the vendors that had identified the duplicate payment for the six (6) discussed above. For the remaining six (6) duplicate payments, totaling \$6,136.08, the processes of resolving the duplicate payments had not begun until we notified Accounts Payable of the duplicate payments.</p> <p>Causes of the duplicate payments appear to have been for the following reasons:</p> <ul style="list-style-type: none"> <li>• Duplicate vendors setup in SAP (4)</li> <li>• Otherwise identical invoices with different invoice dates were not detected in SAP (3)</li> <li>• Duplicate payment message in SAP was ignored (3)</li> <li>• Paid off of a faxed invoice and then again off of the original invoice when received (1)</li> <li>• Paid off of the original invoice and then again off of the copy of the invoice received with the packing list (1)</li> </ul>	<p>We recommend that the following actions be taken to reduce the risk of duplicate payments:</p> <ul style="list-style-type: none"> <li>• The recommendations in Issue 4 be implemented to reduce the number of unintentional duplicate vendors in SAP.</li> <li>• The criteria in SAP that triggers the duplicate payment message should be changed so that it does not require the same invoice date for the message to occur.</li> <li>• SAP users should be required to document their rationale for overriding duplicate payment warnings generated in SAP.</li> <li>• Only original invoices should be paid.</li> </ul>	<p>Accounts Payable will run a duplicate invoice report on a quarterly basis to identify possible duplicate payments and take necessary action to resolve. We will also look at the criteria in SAP that triggers the duplicate payment message to see if removing the same invoice date could be an option. Currently the match for duplicate payments is based on vendor number, invoice number, invoice date and dollar amount. Removing the invoice date match will need to be evaluated as the departments would get the duplicate message for every utility payment (i.e. phone, electric, gas, etc.) each month as the utility account number is used as the invoice number. Most utility invoices do not have an actual invoice number.</p> <p><b>Estimated Completion Date:</b> 04/30/11</p> <p><b>Responsible Party:</b> Joyce Adams</p>

## ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
<b>Topic Accounts Payable</b>			
<b>Moderate</b>	<b>2 Signature Verification</b>		
	<p>Accounts Payable has a process in place in which invoices are reviewed for authorized signatures approving payment. This process is documented by A/P personnel placing a checkmark next to the authorized signatures.</p> <p>We randomly selected a sample of 60 checks and reviewed the related invoices. We identified four (4) checks with related invoices which lacked evidence of the signature verification process (i.e. no checkmark next to the authorized signature). We reviewed each invoice and determined that they did indeed contain authorized signatures by comparing the signatures on the invoices to the list of authorized signatures kept on file with the County Finance Department.</p>	We recommend that A/P personnel be reminded of the importance of reviewing invoices for proper authorizing signatures prior to paying invoices.	<p>Accounts Payable staff has been reminded that a requirement for releasing an invoice is to verify if the signature has been marked as authorized with a red checkmark. If due to time constraints an invoice is processed for payment from a fax or electronic copy it is their responsibility to checkmark the original copy when received in the courier.</p> <p><b>Estimated Completion Date:</b> 09/23/10</p> <p><b>Responsible Party:</b> Joyce Adams</p>

## ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
<b>Topic</b>	<b>Accounts Payable</b>		
<b>Moderate</b>	<b>3 Vendor Maintenance</b>		
	<p>As part of the vendor set-up process, A/P obtains W-9s for each vendor and requires that the vendor provide a physical address (no P.O. Boxes). We reviewed a sample of 60 active vendors in SAP to determine whether adequate documentation existed for the vendor. We noted three (3) active vendors with no W-9s on file and no activity since October 2005 (i.e. the date of the SAP update where all active vendors at the time were rolled forward into the updated SAP software); two (2) active vendors provided W-9s with no physical address; and one (1) active vendor, originally used to reimburse the employee for eligible travel related expenses, for an employee terminated in September 2005.</p>	<p>We recommend that County Finance review the active vendors to ensure they all have physical addresses on file. County Finance should develop a formal policy instructing A/P staff to ensure that there is a recent W-9 (i.e. dated within the last two years) on file for each vendor before making payments. In addition, County Finance should add criteria to their policy regarding the deletion of inactive vendors from the vendor file and specifying how often the vendor file will be reviewed for inactive vendors. It is recommended that vendors with no activity in the past 24 months be removed from the vendor file and that the file be reviewed at least annually.</p>	<p>The physical address may not appear on the W-9 however it may be indicated on the invoice submitted by the vendor. Requirement to have a current W-9 (within two years) on file has been added to the Invoice Payment Requirements. We have also found an area on the vendor file that will indicate the date of the most current W-9 on file. It will be indicated on screen Display Vendor: Accounting Information Accounting in Valid until field. Accounts Payable staff will verify the current W-9 on file in FYI when releasing invoices and update the vendor file as needed.</p> <p>Process started 09/23/10 and will be an ongoing process.</p> <p><b>Estimated Completion Date:</b> 04/30/11</p> <p><b>Responsible Party:</b> Joyce Adams</p> <p>Jennifer Fiers in Information Technology was contacted 09/23/10 to run a report on vendors created as of 09/30/09 with no activity since 10/01/07 to be removed from the vendor file. Process should be completed by 11/30/10. We will request annually.</p> <p><b>Estimated Completion Date:</b> 12/31/10</p> <p><b>Responsible Party:</b> Joyce Adams</p>

## ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
<b>Topic Accounts Payable</b>			
<b>Moderate</b>	<b>4 Duplicate Vendors</b>		
	<p>We obtained a list of all vendors (excluding the Clerk's vendors) and sorted by Employer Identification Number and Social Security Number to identify potential duplicate vendors. Often times, vendors have separate order and payment addresses and require separate setup in SAP. County Finance is able to link the intentional duplicate vendors together using an "alternate payee" field in SAP in which all separate instances of the vendor in SAP can be referenced back to a single vendor number and payment address. These duplicate vendors that appeared to be intentionally created were removed leaving 518 likely unintentional duplicate vendors.</p> <p>Under the Duplicate Payment Issue discussed in #1, four (4) of the twelve (12) duplicate payments (33%) were to vendors identified here as likely unintentional duplicate vendors.</p>	<p>We recommend that County Finance review the list of 518 likely unintentional duplicate vendors we have provided to them and delete duplicate vendors where appropriate. In addition, County Finance should review the vendor file at least annually to ensure there are no unintentional duplicate vendors.</p>	<p>Accounts Payable has started reviewing the 518 unintentional duplicate vendors provided and will mark for deletion if applicable. Some of these vendors were assigned another vendor number as an alternate payee so the check will be remitted to the proper address. Purchasing has indicated that the purchase order must be sent to the vendor's physical address. Upon completion the list will be provided to Jennifer Fiers in Information Technology to have the appropriate Accounts Payable vendor numbers deleted. Purchasing would be responsible to delete any of their vendors. Vendor file will be reviewed annually.</p> <p><b>Estimated Completion Date:</b> 04/30/11</p> <p><b>Responsible Party:</b> Joyce Adams</p>



## ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
<b>Topic</b>	<b>Accounts Payable</b>		
<b>Low</b>	<b>5 Invoice Receipt</b>		
	<p>Per Administrative Order 33, "The County agency first receiving an invoice shall mark the invoice with the agency's name and the date received by using a dated stamp, or by typing or writing in ink." Of the 60 checks sampled, one (1) had a related invoice which was not date stamped by the County agency first receiving the invoice.</p> <p>Per Administrative Order 33, "All Board agencies are required to submit undisputed invoices for payment to County Finance within ten (10) days after receipt of invoice." Of the 60 checks sampled, thirteen (13) had related invoices that were not remitted to County Finance within the required 10 day window.</p>	We recommend that Board agencies be reminded of the importance of date stamping invoices received and submitting their undisputed invoices for payment to County Finance within ten (10) days after receipt.	<p>The County Manager will issue a memorandum to Department Directors advising them of this audit issue and advising them of the requirements outlined in Administrative Order 33. The Manager will ask the County Finance Department to provide a report on a quarterly basis of those departments/offices that are not meeting the requirements of the Administrative Order.</p> <p><b>Estimated Completion Date:</b> October 15, 2010</p> <p><b>Responsible Party:</b> Steve Stultz, Central Services Director</p>